

DATE ISSUED: July 14, 2005 REPORT NO. 05-159

ATTENTION: Honorable Mayor and City Council
Dockets of July 18 and July 19, 2005

SUBJECT: Fiscal Year 2006 Annual Appropriation Ordinance

SUMMARY

Issue: Should the Mayor and City Council adopt the Fiscal Year 2006 Annual Appropriation Ordinance?

Manager's Recommendation:

Adopt the Fiscal Year 2006 Annual Appropriation Ordinance.

Other Recommendations:

None.

Fiscal Impact: The adoption of the Fiscal Year 2006 Annual Appropriation Ordinance will result in a Net Total Combined Budget of \$2.2 billion for Fiscal Year 2006, which reflects a net increase of \$38.9 million from the Fiscal Year 2006 Proposed Budget. The total General Fund budget for Fiscal Year 2006 is approximately \$864.9 million. A significant portion of the increase to the total City budget is due to changes in the Capital Improvements Program.

BACKGROUND

The Fiscal Year 2006 Proposed Budget was submitted to the City Council on May 2, 2005. This included a Total Combined Budget of \$2,367,946,522 comprised of:

- \$857,659,472 in the General Fund
- \$832,912,707 in Enterprise Funds
- \$356,948,953 in Capital Improvements Funds
- \$309,788,380 in Special Revenue Funds
- \$ 10,637,010 in Debt Service and Tax Funds

Subsequent to the presentation of the budget, the Fiscal Year 2006 Proposed Budget was reviewed and adjusted in 13 public budget hearings. Additionally, Community Budget Forums were held throughout Council Districts to provide information to citizens and answer questions on the Proposed Budget. Throughout the budget hearings changes were proposed and approved by the Mayor and City Council and were summarized in various memos distributed throughout the process. Final budget decisions were made during the City Council budget deliberation meetings of June 20, 2005 and June 27, 2005 (Attachment J).

This Manager's Report presents a final compilation of all changes to the City Manager's Proposed Budget and is known as the Change Letter. It also presents the Annual Appropriation Ordinance which sets forth the legal authority to expend revenues during Fiscal Year 2006 upon approval by the Mayor and City Council.

As noted in the City Charter Article VII, Section 71, "Provision shall be made by the Council for a minimum of two (2) public hearings upon the appropriation ordinance either before a Committee of the Council or before the Council sitting as a committee of the whole. Following the public hearings the appropriation ordinances shall take the same course in the Council as other ordinances and shall be adopted during the month of July. The Council may reduce or eliminate any item, may increase any amount or add any new item for personal services, contractual services, materials, supplies, and equipment for any Department."

DISCUSSION

Throughout the budget process memoranda were issued by the City Manager. Each memorandum was representative of the efforts to keep the Mayor and City Council abreast of the changes that occurred during the budget deliberations, as well as to provide options to balance the Fiscal Year 2006 Budget. The following reflects the various General Fund changes that have occurred since May 2, 2005. In addition, this report contains further discussion of Non-General Fund adjustments, and Capital Improvements Program changes in the following order:

1. Fiscal Year 2006 **General Fund** Adjustments
2. Fiscal Year 2006 **Non-General Fund** Adjustments
3. Capital Improvements Program Changes

1. FISCAL YEAR 2006 GENERAL FUND ADJUSTMENTS

The changes to the Fiscal Year 2006 Proposed Budget as reflected in the following tables are based on direction provided by the Mayor and City Council. These are also reflected in the attached Change Letter and the Appropriation Ordinance and will be included in the Annual Fiscal Year 2006 Budget document.

The changes to the Fiscal Year 2006 Proposed Budget included the funding of the Mayoral primary election, the offset of proposed meet and confer savings not realized, the partial repayment of Centre City Development Corporation (CCDC) loans and the funding of phase one of the Lifeguard Boat Dock.

Throughout the Fiscal Year 2006 budget deliberations the City Manager presented updates and proposals in the form of memoranda (Attachments A-C), aimed at bringing General Fund expenditures in line with General Fund revenues. In addition to proposed reductions, the City Manager provided revenue options for consideration. The Mayor and City Council approved the following City Manager proposed items for the Annual Fiscal Year 2006 Budget:

CITY MANAGER PROPOSED CHANGES	FTE	Revenues	Expenditures
Fiscal Year 2006 Proposed General Fund Budget	6,747.58	\$857,659,472	\$857,659,472
Mayoral Election			\$2,500,000
Meet & Confer Unrealized Savings			\$2,849,401
PETCO Park Allocation Savings		\$2,300,000	
Classified Position Reductions	(18.04)	(\$63,000)	(\$1,487,573)
Safety Sales Tax – Fire/Lifeguards		\$1,220,000	
Lifeguard Boat Dock (Phase 1)			\$1,000,000
Fire Apparatus			\$220,000
Proposed Fee Adjustments and Department Revenue Adjustments		(\$98,457)	
SUBTOTAL	6,729.54	\$861,018,015	\$862,741,300
Surplus/(Deficit)			(\$1,723,285)
City Manager Recommendations			
Workers' Compensation Fund Surplus		\$2,275,800	
Golf Course Rent		\$64,614	
Development Services GF Contribution			(\$180,000)
SUBTOTAL WITH SOLUTIONS	6,729.54	\$863,358,429	\$862,561,300
Surplus/(Deficit)			\$797,129
Additional Revenue Options			
CCDC Revenue		\$1,075,084	
Gold Coast Classic		\$204,395	
ADDITIONAL REVENUE SUBTOTAL		\$864,637,908	\$862,561,300
Surplus/(Deficit)			\$2,076,608
CITY MANAGER SUBTOTAL	6,729.54	\$864,637,908	\$862,561,300

The Mission Bay Ordinance waiver, which was assumed in the Fiscal Year 2006 Proposed Budget, was approved by the Mayor and City Council during budget deliberations on June 20, 2005. This enabled the use of revenues to restore Proposed Budget reductions.

The Mayor and several Councilmembers also released memoranda making recommendations for revenue options and/or budget restorations (Attachments D-H). Those items that were approved by the Mayor and City Council are reflected in the next chart.

Several Councilmembers opted to apply the identified additional funding toward budget priorities other than those listed in the Mayor's Budget Revisions memorandum. For example, Councilmembers Peters, Atkins, and Young chose to forego restoration of community service centers in their respective districts in favor of restoring recreation center hours, park maintenance activities, library hours, and staffing to support the Historical Resources Board. These transfers from various funding sources are considered one-time transfers which will require new funding sources to be identified for Fiscal Year 2007.

The following chart summarizes items adopted by the Mayor and City Council:

MAYOR AND CITY COUNCIL RESTORALS/REVISIONS	FTE	Revenues	Expenditures
Transfer from Council District 1 Infrastructure Fund	0.00	\$7,492	---
Transfer from Council District 2 Infrastructure Fund	0.00	\$29,000	---
Transfer from Council District 3 Infrastructure Fund	0.00	\$39,523	---
Transfer from Council District 4 - PC Replacement Fund	0.00	\$30,000	---
Transfer from Council District 4 Infrastructure Fund	0.00	\$62,987	---
Transfer from Council District 4 - EDCO Community Fund	0.00	\$62,987	---
Transfer from Council District 5 Infrastructure Fund	0.00	\$15,000	---
Transfer from Council District 7 Infrastructure Fund	0.00	\$15,000	---
Transfer from Council District 8 Infrastructure Fund	0.00	\$34,000	---
Restoration of Pool Hours at Clairemont (Private donation)	2.00	\$101,560	\$103,503
Restore Memorial and Vista Terrace Pools (RZH Fund)	3.00	\$187,340	\$187,340
Park Maintenance	12.54	---	\$760,279
Reduction of 2.00 Council Representatives from Mayor's Budget to fund 1.00 Special Events Program Manager	(2.00)	---	(\$122,771)
Community Service Centers	6.00	---	\$403,604
Restore 1.00 Groundskeeper I (CD 1)	1.00	---	\$57,089
Restore 1.00 Assistant Center Director (CD 1)	1.00	---	\$53,583
Restore Sunday hours at City Heights Library (CD 3)	0.00	---	\$44,700
Restore Assistant Center Director (CD 3)	0.75	---	\$43,108
Library and Park & Recreation Restorals (CD 4)	5.37	---	\$285,324
Remove \$200,000 from Book and Material to restore 1.00 Resource Development Officer (CD 7)	0.00	---	(\$113,127)
Civil Service Approved Addition of 1.00 Council Representative (CD6)	1.00	---	---
MAYOR AND CITY COUNCIL SUBTOTAL	30.66	\$584,889	\$1,702,632

In addition to the General Fund adjustments proposed by the City Manager and approved by the Mayor and City Council, and those items proposed via memoranda by the Mayor and individual Councilmembers, are those items approved by the Mayor and City Council during budget deliberations. The following chart describes those changes:

OTHER GENERAL FUND ADJUSTMENTS	FTE	Revenues	Expenditures
Disclosure Practices Working Group (Zero impact)	12.40	---	---
Management Reductions	(7.84)	\$166,024	\$463,458
Redevelopment Agency (Transfer to Sub-Fund)	(20.90)	(\$2,085,221)	(\$2,088,791)
City Attorney (Increased revenue agreement)	7.00	\$900,000	\$894,047
Increase to Public Liability Fund	0.00	---	\$403,000
CERT program - Council District Infrastructure Funds (CD 1, 3, 5, 7)	0.00	---	\$50,422
Restoral of 1.00 Senior Planner for support to the Historical Resources Board (Planning) (CD 1, 2, 3, 8)	1.00	---	\$107,800
Restoral of 1.00 Executive Secretary (General Services)	1.00	---	\$76,755
Restoral of 3.50 Positions (Planning)	3.50	\$377,757	\$377,575
Restoral of 2.00 Positions (Engineering and Capital Projects)	2.00	\$222,867	\$222,867
Restoral of 1.00 Homeless Coordinator Position (Community and Economic Development)	1.00	\$115,688	\$115,688
Restoral of 10.00 Community Service Officers (Police)	10.00	---	---
Reduction of 4.00 Positions - Redistributed with Department's Original Proposed Budget 5% Reduction (City Auditor)	(4.00)	---	---
Emergency Medical Services Adjustment - Citywide	0.00	---	\$33,159

OTHER GENERAL FUND ADJUSTMENTS SUBTOTAL	5.16	(\$302,885)	\$655,980
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The total impact of proposed changes to the Proposed General Fund Budget presented on May 2, 2005 include an increase of \$7,260,440 and a net increase of 17.78 positions, most of which were restored from proposed reductions.

This reflects a total change from the Annual Fiscal Year 2005 General Fund budget of \$47.5 million and a reduction of 189.95 positions as reflected in the table below:

	Fiscal Year 2005	Fiscal Year 2006	Change
Total General Fund	\$817,432,989	\$864,919,912	\$47,486,923
Total FTE	6,955.31	6,765.36	(189.95)

2. FISCAL YEAR 2006 NON-GENERAL FUND ADJUSTMENTS

In addition to the changes identified for the General Fund, several adjustments were proposed and approved for Non-General Funds. Non-General Fund changes typically do not affect the General Fund and based on City Charter restrictions, Non-General Funds may not be used to subsidize General Fund operations. Each of these changes is exclusive to the respective fund. Changes to Non-General Funds made between the Fiscal Year 2006 Proposed and Final Budgets are shown below.

- Restore 35.03 positions (various departments), per June Revision, Attachment C
- Transfer of Redevelopment Division (previously a division of Community and Economic Development Department) to a separate Non-General Fund
- Reduction of 1.00 Assistant Deputy Director from Development Services Department
- Increase Golf Course rent payment by \$64,614
- Net increase of 0.04 position for the Office of the Chief Information Officer
- Decrease of \$16,446 from the Metropolitan Wastewater Department
- Reduction of 1.00 position from Maintenance Assessment Districts
- Reduction of 8.00 positions from General Services, Streets Division
- Reduction of 1.00 position from the Water Department

3. CAPITAL IMPROVEMENTS PROGRAM ADJUSTMENTS

As part of the annual budgeting process, revisions to the Capital Improvements Program (CIP) are incorporated into the Final Budget. These include changes to the CIP resulting from updates to various project scopes and funding requirements, the annual reprogramming of TransNet Commercial Paper funding, updates to various Public Facilities Financing Plans, Mayor and City Council actions, and budget deliberations.

The CIP Budget increased by \$32,699,855 between the Fiscal Year 2006 Proposed and Final Budgets. The following is a summary of the significant changes.

Metropolitan Wastewater Department

The Metropolitan Wastewater Department's Fiscal Year 2006 CIP Budget is \$36,645,866. This is an increase of \$12,178,380 between the Proposed and Final Budgets. This is attributed to significant increases for CIP contingencies, sewer main replacements and the Sorrento Valley Trunk Sewer Relocation project. These changes are consistent with the Sewer Rate case and may be adjusted if the Department is unable to secure further project financing.

TransNet Commercial Paper

TransNet Commercial Paper is not a funding source that is automatically carried over from one fiscal year to the next. It was deappropriated via City Council Resolution R-300515 at the conclusion of Fiscal Year 2005, and reprogrammed into the Fiscal Year 2006 CIP budget. The total amount of Commercial Paper reprogrammed into Fiscal Year 2006 increased by \$13,313,825 between the Proposed and Final Budgets.

This change is reflected within the Engineering and Capital Projects Department's Fiscal Year 2006 CIP Budget. However, due to decreases in other funding sources the net impact to the Department's Fiscal Year 2006 CIP Budget is an increase of \$9,999,278.

Park and Recreation Department

The Park and Recreation Department's Fiscal Year 2006 CIP Budget increased by \$6,453,191 between the Proposed and Final Budgets. The most significant increases were in projects funded by State Grants, Development Impact Fees, General Fund contributions, Capital Outlay and Golf Course Enterprise Funds.

Water Department

The Water Department's Fiscal Year 2006 CIP Budget increased by \$1,779,509 between the Proposed and Final Budgets. The most significant change is attributed to funding of the Barrett Reservoir Outlet Tower Upgrade. Changes to the Water Department CIP budget are consistent with the Water Rate case and may be adjusted if the Department is unable to secure further project financing.

Phase Funding

Phase funding allows projects to be broken down into clearly defined portions, or phases. A single large project may be considered as a series of component tasks and contracted for by phase, making pursuit of each phase contingent on the availability of funds. Funds for future phases are therefore not included in the Final Budgets. Several large Water projects within the City's Capital Improvements Program (CIP) are funded in this manner allowing improved cash management of Water funds.

The amount required for phase funded projects in Fiscal Year 2006 is \$45,885,414, which is a net decrease of \$840,617 between the Proposed and Final Budgets. Execution of future phases will result in mid-year increases of the CIP Budget and will be contingent upon the availability of funds.

The changes between the Proposed and Final Budgets are broken down by department and summarized in the table below.

CAPITAL IMPROVEMENTS PROGRAM SUMMARY BY DEPARTMENT			
Changes between FY 2006 Proposed and FY 2006 Final Budget			
	FY 2006	FY 2006	
DEPARTMENT	PROPOSED	FINAL	CHANGE
Community and Economic Development	\$3,302,606	\$3,402,606	\$100,000
Development Services	\$75,000	\$60,000	(\$15,000)
Engineering and Capital Projects	\$139,838,197	\$149,837,475	\$9,999,278
Environmental Services	\$6,997,000	\$6,997,000	---
General Services	\$6,577,099	\$6,857,599	\$280,500
Library	\$99,902,434	\$99,902,434	---
Metropolitan Wastewater	\$24,467,486	\$36,645,866	\$12,178,380
Office of the CIO	\$2,550,000	\$3,473,997	\$923,997
Park and Recreation	\$29,837,821	\$36,291,012	\$6,453,191
Police	\$2,478,998	\$2,478,998	---
QUALCOMM Stadium	\$750,000	\$750,000	---
Real Estate Assets – Airports	\$400,000	\$400,000	---
San Diego Fire-Rescue	\$30,111,445	\$31,111,445	\$1,000,000
Water	\$9,660,867	\$11,440,376	\$1,779,509
TOTAL	\$356,948,953	\$389,648,808	\$32,699,855

OVERALL BUDGET SUMMARY

The change from the Fiscal Year 2006 Proposed Budget to the Final Budget presented herein represents a net total increase of \$38.9 million of which \$32.7 million is attributable to CIP changes. The following table summarizes the changes to the City's total Operating, Capital and Combined Budgets, and the changes to the number of positions. An itemization of all changes made to the Proposed Budget is contained in the Fiscal Year 2006 Final Budget Change Letter (Attachment K).

	FY 2006 PROPOSED BUDGET	FY 2006 FINAL BUDGET	CHANGE
General Fund	\$857,659,472	\$864,919,912	\$7,260,440
Gross Total Operating Expenditures	\$2,123,687,135	\$2,129,283,692	\$5,596,557
Total Capital Improvements Program	\$356,948,953	\$389,648,808	\$32,699,855
(Less Internal Service Funds)	(\$112,689,566)	(112,437,357)	\$252,209
Total Combined Budget	\$2,367,946,522	\$2,406,495,143	\$38,548,621
(Less Interfund Transactions)	(\$205,962,960)	(\$205,544,013)	\$418,947
Net Total Combined Budget	\$2,161,983,562	\$2,200,951,130	\$38,967,568
General Fund Positions	6,747.58	6,765.36	17.78
Non-General Fund Positions	4,068.33	4,092.41	24.08
Total City Positions	10,815.91	10,857.77	41.86

The change from the Fiscal Year 2005 Net Total Combined Budget is a reduction of \$91.8 million.

The Annual Fiscal Year 2006 Budget document is expected to be distributed in October 2005. As in previous years, departments will continue to monitor budgetary expenditures throughout the year and will keep the Mayor and City Council advised of the City's budgetary status through financial reports provided during the fiscal year.

APPROPRIATION ORDINANCE ADOPTION

Section 71 of the City Charter mandates the adoption of the Annual Appropriation Ordinance by the Mayor and City Council during the month of July. To adopt the Annual Budget, two public hearings are required. The first hearing is scheduled for July 18, 2005, and the second hearing is scheduled for July 19, 2005.

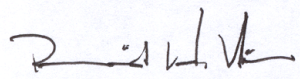
Section 71a of the City Charter states, "If at the beginning of any fiscal year the appropriations necessary for the support of the various City offices, departments, services or institutions for such fiscal year shall not have been made, the several amounts appropriated in the Annual Appropriation Ordinance for the preceding year for the objects and purposes therein specified, so far as the same shall relate to salaries and wages and maintenance and support expenses, shall be deemed to be reappropriated for the several objects and purposes specified in said previous year's Annual Appropriation Ordinance until Council shall adopt the Annual Appropriation Ordinance for the new fiscal year..."

At the conclusion of the second public hearing, it is recommended that the Annual Appropriation Ordinance be adopted by the Mayor and City Council. Doing so will ensure that the required Fiscal Year 2006 appropriations for the day-to-day operations of the City of San Diego, are met.

As previously indicated, there are several pending issues that will need to be resolved throughout Fiscal Year 2006 including the loss of \$5.2 million in Booking Fee reimbursement from the State of California. The Mayoral general election, if necessary, will require approximately \$500,000 in unbudgeted expenditures. Additionally, the lack of audited financial statements will continue to be problematic in securing financing revenue for necessary infrastructure projects and continue to present associated legal and audit expenditures.

Although this budget process has been unprecedented, it has demonstrated the willingness of the Mayor and City Council to begin fundamental reforms to restore the City's fiscal health.

Respectfully submitted,



Ronald H. Villa
Financial Management Director



Approved: P. Lamont Ewell
City Manager

ATTACHMENTS

Attachment A	Reorganization and Fiscal Year 2006 Proposed Budget Unclassified Position Impacts, June 1, 2005
Attachment B	Fiscal Year 2005 Proposed Budget Update Memorandum, June 3, 2005
Attachment C	Fiscal Year 2005 Proposed Budget June Revision Memorandum, June 17, 2005
Attachment D	Mayor's Fiscal Year 2006 Budget Revisions Memorandum, June 17, 2005
Attachment E	Funding for 4 th District Community Service Center, June 20, 2005
Attachment F	Fiscal Year 2006 Council District Three Reprioritization, June 20, 2005
Attachment G	2006 Budget Memo, June 20, 2005
Attachment H	Fourth District Funding for Restoration of Park and Recreation Departments Fiscal Year 2006 Budget Reductions, June 27, 2005
Attachment I	Fourth District Funding for Restoration of Park and Recreation and Library Departments' Fiscal Year 2006 Budget Reductions, June 28, 2005
Attachment J	Fiscal Year 2005 Mayor and City Council Budget Deliberation Minutes for June 20 and 27, 2005 (Blue)
Attachment K	Summary of Changes to the Fiscal Year 2005 Proposed Operational Budget (Green) and Capital Improvements Program Budget (Yellow)

NOTE: Due to the size of the attachments, the distribution will be limited to the City Council binders. Additional copies are available for review in the Office of the City Clerk.